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California Municipal Treasurers Association www.cmta.org

CMTA celebrates Municipal "Treasurers Day and Week"

The California Municipal Treasurers Association (CMTA), an affiliate organization of the League of California Cities, celebrated Municipal Treasurers Day and Week during its Annual Conference in Long Beach.

CMTA sponsored a special measure, Assembly Concurrent Resolution (ACR) 33, in the State Legislature to highlight the many accomplishments of municipal treasurers in California. ACR 33 commemorated May 2 as Municipal Treasurers Day and the week of April 30 - May 6 as Municipal Treasurers Week.

Authored by Assemblywoman Anna Caballero (D-Salinas), chair of the Assembly Local Government Committee, the measure flew through both the Assembly and Senate. It was recently chaptered by the Secretary of State, with additional support from the League, State Treasurer Bill Lockyer, and the California Special Districts Association.

Lockyer was on-hand to help kick-off the CMTA conference, delivering the keynote address on Municipal Treasurers Day. CMTA President Vikki Beatley recognized and thanked Lockyer and Caballero for their work on ACR 33, saying that the association looks forward to making it an annual celebration.

For more information about ACR 33, look up the bill at www.cacities.org/billsearch..

Automate your check deposits with Remote Image Deposit

—Article provided by Randy Ungersma
Vice President, Union Bank Government Services

Imagine eliminating the time-consuming manual process of preparing daily deposit slips and sending your employees to the nearest bank branch to deposit checks—or no longer having to use couriers to transport checks to the bank.

Now, with the technological advances in electronic check clearing, agencies can deposit checks electronically with Remote Image Deposit.

Convenience, Efficiency and Reduced Costs

Instead of the current labor-intensive paper process, images of checks and related information are transmitted to the bank electronically. Remote Image Deposit allows you to simply key in a deposit total on a standard PC, feed your checks through a desktop scanner, confirm that the deposit amounts are in balance, and push a button to transmit the check images and related deposit information to the bank.

"One of the major benefits of Remote Image Deposit is that it takes geography out of the equation when selecting a bank for depository services," says Valjean Sanchez, Senior Vice President, Product Management, at Union Bank. "By using the service, an organization can consolidate all of its depository business with one bank and select a bank based on service rather than proximity of bank branches to its store or office locations."

Making deposits into one account at one bank, instead of into multiple accounts at multiple banks, reduces the number of accounts you maintain, cuts banking fees and frees up your staff's time—and you can still track deposit activity by location. Plus

—Continued on page 3

President's Message...

Christine Vuletich
President

I am excited about serving as your President for 2007-2008 and am looking forward to a great year. It is an incredible honor to be a part of this organization. My first experience with CMTA was attending the beginning education workshop many years ago. Since that first workshop, I have learned so much through CMTA that has helped me to develop professionally and become successful in my career.

However, it is the members that I have gotten to know over the years that make this organization what it is. Your participation on all levels, whether attending workshops and conferences; volunteering to serve on the division, committee or Board level, or providing expertise as a commercial associate provides for shared experience, knowledge and support that no one of us could ever have achieve alone.

This year's conference in Long Beach was the largest and one of the best ever! Respondents to the conference evaluations overwhelmingly rated the program as excellent, with Jack Canfield, author of the Chicken Soup for the Soul book series, as the favorite speaker.

A recurring theme that was present in several of the sessions was how demographics are affecting public agencies as the Baby Boom generation transitions into retirement. As we begin to think about passing the baton, providing education is important not only in strengthening skills and knowledge, but also in building professional relationships that can help to retain our best employees and attract others to want to work in our organizations.

CMTA's mission is to protect the fiscal integrity of its member agencies and treasury professionals by promoting the professional advancement and alliance of public agency Treasurers through education and legislative activism. Please visit our website "CMTA.org" regularly for more information on upcoming division meetings, education workshops, and resources.

Automate your check deposits...

–continued from page 1

courier expense or the cost of employee trips to bank branches is reduced or, in some cases, eliminated.

Even businesses with relatively low check volumes can benefit, Sanchez says. For instance, a business that receives most remittances by lockbox now can cost effectively deposit "stray" checks delivered to its office locations.

Gain faster access to your funds

With Remote Image Deposit, you can deposit most checks anytime during the business day without being limited by the courier's pickup deadline. An extended deposit deadline lets you make electronic deposits late into the day and still receive same-day ledger credit, which can improve funds availability.

Improve customer service and financial control

Remote Image Deposit can also have a positive impact on how you respond to customer inquiries and process new orders.

The service improves your ability to research check activity and respond to customer questions in a more timely way by providing online access to check images and deposit history. "And it can help you prepare deposits in a more accurate, efficient fashion, thus avoiding costly deposit adjustments due to errors," Sanchez says.

Ask your Relationship Manager about the many ways your organization can benefit from Remote Image Deposit—and how our flexible service can be customized to meet your needs.

Dollars & $ense
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Direct all correspondence to:
Vince Amado, CCMT, City Treasurer
City of Rocklin
3970 Rocklin Road
Rocklin, CA 95677-2720
Tel: (916) 624-2424
Fax: (916) 624-0969
vince.amado@ci.rocklin.ca.us

Planning for unfunded OPEB liabilities

—Submitted by Jim Link, PFM Advisors and Jamie Whitaker, PFM Asset Management LLC

Implementation of GASB 45 Presents Tough Fiscal Challenges

With the first phase of the Governmental Accounting Standards Board (GASB) Statement 45 going into effect, planning for unfunded OPEB liabilities becomes a high priority for many public agencies. For most public entities, the accrued expense of OPEB obligations for current and future retirees will gradually become a significant, unfunded liability in their financial statements if they are unable to meet the actuarial valuation's Annual Required Contribution (ARC). Public employers taking a hard look at how GASB 45 will impact their balance sheets and cash flow statements see a very sobering picture.

In general, public officials are learning from actuarial reports that their ARC is five to ten times the amount currently paid for retiree health care benefits on a pay-as-you-go (PAYGO) basis. This means that public employers are looking at total liabilities of as much as $100,000 per retiree. If history is any indication, these costs will go even higher as health care premiums have significantly outpaced inflation over the past several years.

Ratings agencies want to see a comprehensive plan

Developing a comprehensive plan for managing OPEB liabilities is critical. If a net OPEB obligation accumulates without any plan for reducing the liability, the entity's credit rating will eventually be affected. Some of the factors that will be evaluated in relation to OPEB costs include:

- Are consequences of OPEB obligations fully understood?
- Where does OPEB rank in relation to other planning priorities?
- How conservative or aggressive are planning assumptions?
- Is the entity's budget able to afford the OPEB ARC?
- What are the legal obligations of the employer to meet retiree healthcare obligations?

Public employers possess multiple options for managing OPEB liabilities

A thorough analysis of the options available for managing OPEB liabilities is necessary because there is no single, simplified solution for all public entities. The options for managing OPEB liabilities should include consideration of the following:

1 **Modifying Retiree Benefits**—While public employers traditionally offer defined benefits for their retirees, the implementation of GASB 45 provides an opportunity to examine the current benefits structure and to discuss alternative benefits and funding possibilities that make sense for your agency. Adopting a Medicare Part D plan or phasing in a defined contribution benefit plan may be viable options to help reduce OPEB liabilities going forward.

2 **Creating and Funding a Trust Based on the Current Actuarial Assessment**—Setting up a trust can allow for investments in equities and other asset classes utilized by pension funds in an attempt to maximize total returns for the investment portfolio. It is important to emphasize that GASB does not say that you have to create or fund a trust. While some form of trust is likely to be at least part of your management plan for dealing with OPEB liabilities, it is not the only solution that a public employer should consider.

3 **Setting Up an Investment Fund for OPEB Liabilities**—As many entities await a possible statewide solution, they may decide to set up an investment account to park funds intended for funding OPEB liabilities. Such an account would limit the scope of allowable investments and the amount set aside would not count as a contribution to directly offset the net OPEB obligation in the financial statements.

4 **Issuing OPEB Obligation Bonds**—OPEB obligation bonds (OPEBOBs) are an option that should be carefully considered by public employers. Pension obligation bonds (POBs) often make sense for public employers because the growth of the benefit is fairly well known and the potential arbitrage advantage between the debt service and reinvestment rate may keep up with that growth. However, the same cannot be said for OPEBOBs. Without significant retiree benefit cuts, the potential arbitrage benefit for OPEBOBs will likely be far outpaced by the inflation rate of health care premiums. As a matter of fact, ratings agencies may view the issuance of OPEBOBs as a negative because it "locks in" a hard liability in the form of debt service payments unlike the softer liability of accrued OPEB expenses.

Stakeholders want to know how your agency plans to fund OPEB liabilities

The media, consumer groups, and constituents will likely have more questions about your agency's OPEB liabilities as the State's newly appointed Public Employee Post-Employment Benefits Commission begins its work. While the OPEB issue is daunting, a systematic and well documented analysis of the alternatives available and a plan for managing OPEB liabilities enables public officials to make the right choices.

Committees

EDUCATION
Donna Mullally, CCMT
Irvine, CA
Tel: (949) 724-6037
FAX: (949) 724-6030
dmullally@ci.irvine.ca.us

LEGISLATION
Laura Parisi
Laguna Beach, CA
Tel: (949)497-0327
Fax: (949)497-0771
lparisi@lagunabeachcity.net

GENERAL CONFERENCE AND SITE SELECTION
Linda Lorenzetti, CCMT
City of Concord
Tel: (925) 671-3183
Fax: (925) 671-3198
linda@ci.concord.ca.us

CERTIFICATION
Bill Gallardo, CCMT
City of Brea, CA
Tel: (714) 671-4418
Fax: (714) 671-4484
mreynolds@cityofredlands.org

MEMBERSHIP/BUDGET
See Treasurer

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LEAGUE LIAISON
Debbie Michel
Sacramento, CA
Tel: (916) 658-8218
Fax: (916) 658-8240
dmichel@cacities.org

COMMERCIAL ASSOCIATE LIAISON
Kay Chandler
San Diego, CA
Tel: (858) 546-3737
kay.chandler@chandlerasset.com

2008 CONFERENCE
San Francisco, CA
April 22-26, 2008

A decade of change in the municipal bond market

—By Marty Nohe, Vice President
Springsted Incorporated

National Bond Market

The municipal bond market is generally regarded by borrowers, such as cities, as relatively boring and unchanging, except for interest rates that are either higher or lower than the last time money was borrowed. However, a closer look into the bond market reveals a number of changes that have occurred over the past decade that some might find of interest.

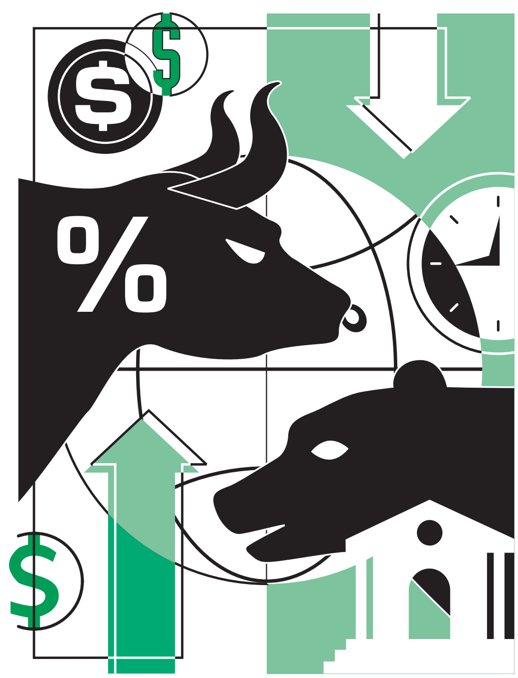
Ten years ago, the total volume of bonds issued throughout the nation was $220 billion. By 2005, volume had increased to over $400 billion, but it was not a straight line up. 2000 had the smallest volume in the past 10 years, a 15 percent decrease from the prior year to barely $200 billion, due to the “dot-bomb” event in technology stocks that caused, in part, a dramatic stock market drop and a bad economy. The economy was further weakened the following year with the events and effects of the “9-11” attacks on this country.

These same events caused most institutional portfolio managers to invest in safer investments, and thus the “flight to quality” (bonds), which caused long-term interest rates to plummet, with demand exceeding supply. This set the stage for several years of refinancing opportunities, cresting in 2005 when over 53 percent of all bonds issued were refunding bonds. In 2006, refundings and refinancings dropped to 17 percent of total volume.

Over the past 10 years, the number of transactions has ranged in amounts from 11,000 to 15,000 annually. Translated, that means that every business day there is an average of 55 bond sales nationally. When a jurisdiction enters the bond market, it is competing with 54 other issues for capital available in the market.

The average size of a transaction 10 years ago was slightly above $17 million. This has increased to over $29 million in 2005, in part reflecting inflation, but also resulting from an increase in infrastructure needs in the country.

Use of the negotiated method of bond sale is up from 75 percent to over 80 percent during the past decade. Correspondingly, use of the competitive method of bond sale has declined from 25 percent down to 20 percent, a trend contrary to GFOA best management practices.



Financing in the education category has increased every year during the past 10 years. Education continues to be the largest single category of bond financing, representing 30 percent of volume in 2005, with a principal amount of $124 billion. General purpose bonds (normal infrastructure) comprise the second largest category, currently around 20 percent of total volume. Utility financings are the third largest category, with a volume in 2005 of $31 billion. Most categories of bond issuance have followed an upward trend in volume, except housing bonds for low- and moderate-income rental units and first-time home owners, which have held constant at around $20 billion for the past 10 years.

The use of and efficiency of using bond insurance and other forms of credit enhancement continued to rise since 1997. Currently, insured and enhanced bonds represent 68 percent of all issues, up from 56 percent 10 years ago.

State governments and their various authorities and agencies dominate the municipal market, a consistent trend this past decade, representing nearly 40 percent of total volume in 2005. Municipalities are a close second place with 37 percent of volume in 2005. Local jurisdictions have increased 75 percent during the past decade, now representing 20 percent of national volume.

The cost of underwriters’ fees has been continually compressed during the past 20 years, declining from 1.32 percent of par in 1986 down to 0.55 percent in 2005 when combining all forms of bonds. Bonds sold in a negotiated sale, which have traditionally carried higher underwriters’ fees than bonds sold using a competitive method, have had the fees compressed from 0.78 percent in 1996 to 0.55 percent in 2005. Underwriting fees for competitive sales have declined for the same period, from .75 percent to .44 percent. The most dramatic drop in underwriter fees was in the health care arena, dropping from 1.61 percent in 1986, to 0.44 percent in 2005, a drop of nearly 75 percent. This in part reflects the use of bond insurance, which makes health care bonds easier to sell, therefore requiring lower fees.

—Continued on page 5

Decade of change in municipal bond market –continued from page 4

A final national trend worth mentioning deals with the IRS. Ten years ago, it was rare to have an IRS audit relating to a bond issue. Between 2003 and 2005, there were 436 “settlements,” including fines and penalties arising from improper, illegal and abusive transactions. Over $103 million was collected by the IRS from these settlements, recently reported in The Bond Buyer.

California Bond Market

Most trends in the California markets are consistent with those experienced nationally. During 2005, California entities, including the State itself, issued bonds in the amount of $64 billion (representing 15 percent of the national volume), in 1,902 transactions (or 13 percent of the number of bonds issued nationally), reflecting a slightly higher average principal amount per transaction amount compared to national averages. Over the past 10 years, there has been a general trend of increasing volume, up from $36 billion in 1996, but has lower than the peak during 2003, which had $80 billion Statewide.

In 2005, less than 15 percent of bonds issued in California were sold on a competitive basis, while over 85 percent of issues were negotiated sales. Compared to national sales, a higher percent of bonds were sold through the negotiated method in California.

The State government dominated bond issuance, with 43 percent of all bonds sold, or $27 billion. Local agencies, including cities, counties and special districts, issued $37 billion collectively last year.

General obligation bonds were the most popular form of debt issued, representing 25 percent of all debt issued in the State. Consistent with national trends, bonds for educational purposes represented nearly 30 percent of all issues in the State in 2005, followed by public capital improvements at 8 percent of the volume.

Closing Comment

Although changes and trends may occur subtly over the course of several years, they can have large impacts on a local borrowing. Knowledge of changes in bond market details and how to plan for and manage those changes can save jurisdictions substantial amounts of money.

Springsted is a large independent financial advisory firm operating in 28 states with half a century of history. For further information contact your bond professionals or Mr. Nohe may be reached at 949.600.5330.

Sources for this article include: The Bond Buyer, Thomson Financial and the California Debt & Investment Advisory Commission.

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Thank you for your support—you contribute greatly to the success of the CMTA Annual Conference. You know who you are, but let’s put your names out there one more time for everyone to see!

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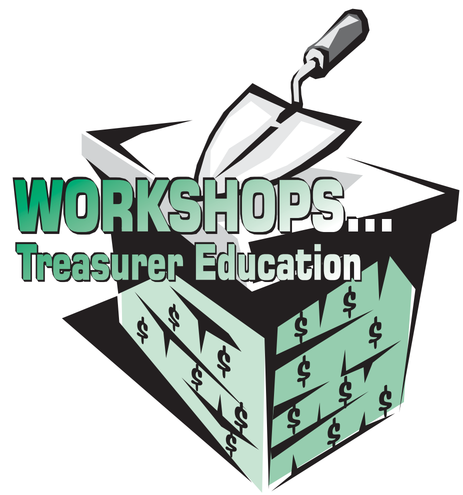
2008 CONFERENCE
San Francisco, CA
April 22-26, 2008

Don't miss the annual Treasury Management Workshop

The Education Committee will be hosting the annual Essentials of Treasury Management Workshop at the Kellogg West Conference Center and Lodge located at Cal Poly Pomona on September 18-20, 2007.



This 2½ day program provides treasury professionals with the fundamentals, resources, language and concepts that are crucial to our responsibilities. We strive to provide a diverse agenda so that experienced treasurers will also glean valuable information from the workshop.

Because CMTA places a strong emphasis on the education of its members, the cost of the workshop is subsidized to encourage participation. For a mere $250, you receive the workshop, two nights' accommodations, and more meals than you can imagine. Additionally, scholarships are available for members who would otherwise be unable to attend.

Registration materials will be sent out in early July and will be available on the CMTA website.

Just for laughs!

"Do you have any other qualifications besides an uncontrollable urge to handle money?"

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What's Inside....

Calendar of Events

CMTA DIVISION MEETINGS

Divisions III, IV, V, VI, VII, X	Dates, locations and topics tbd. Refer to website (www.cmta.org) for current information.
Division I	**Aug 2:** Day at the races at Del Mar
Division II	**Aug 9:** Bluewater Grill in Redondo Beach UBOC presents EDI Electronic Data Interchange. 11:30am–1:00pm More info soon. **Aug 20, 21:** "Creating an Investment Plan," an in-depth interactive investment course taught by Ben Finkelstein—Pall Gudgeirsson, Assistant City Manager/City Treasurer
Division IX	**Jul 19:** Turnip Rose Conference Center in Orange. Topic: "The motivational process, managing change and leaderships" by Neil Kupchin of Kupchin Training Associates, Management and Training Consultants. New Division IX Board will assume their posts for the 2007-2008

UPCOMING CONFERENCES/MEETINGS/WORKSHOPS

Sep 18-20, 2007	Essentials of Treasury Management Cal Poly Pomona
Oct 11-12, 2007	Local Agency Investment Fund (LAIF) - Annual Conference
Jan 23-24, 2008	CMTA Advanced Investment Workshop January 23-24, 2008, Cal Poly Pomona
April 22-26, 2008	CMTA Annual Conference, Renaissance Parc, 55 Hotel San Francisco. Neil Korsgaard, (415) 403-6653, nkorsgaard@parc55.com

California Municipal Treasurers Association

CMTA
1400 K Street, 4th Floor
Sacramento, CA 95814